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MARC SPITZER  
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BRIAN C. McNEIL  
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

2001 FEB 21 P 2:37

DATE: February 21, 2001  
DOCKET NO: W-03293A-00-0600  
TO ALL PARTIES:

AZ CORP COMMISSION  
DOCUMENT CONTROL

Arizona Corporation Commission  
**DOCKETED**

FEB 21 2001

DOCKETED BY

*CP*

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda.  
The recommendation has been filed in the form of an Order on:

THIM UTILITY CO. – E&T DIVISION  
(RATE INCREASE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

March 2, 2001

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

MARCH 6, 2001 and MARCH 7, 2001

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

BRIAN C. McNEIL  
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL  
CHAIRMAN

3 JIM IRVIN  
COMMISSIONER

4 MARC SPITZER  
COMMISSIONER

5  
6 IN THE MATTER OF THE APPLICATION OF  
THIM UTILITY CO. – E&T DIVISION FOR A  
7 PERMANENT RATE INCREASE.

DOCKET NO. W-03293A-00-0600

DECISION NO. \_\_\_\_\_

8 **ORDER**

9 Open Meeting  
March 6 and 7, 2001  
10 Phoenix, Arizona

11 **BY THE COMMISSION:**

12 On August 15, 2000, Thim Utility Co. – E&T Division (“E&T” or “Company”) filed with the  
13 Arizona Corporation Commission (“Commission”) an application for a permanent rate increase. On  
14 September 14, 2000, the Commission’s Utilities Division Staff (“Staff”) notified the Company that  
15 its application was sufficient and classified the Company as a Class D utility. Staff filed its Staff  
16 Report on February 5, 2001, and proposed that Staff’s recommended rates and charges be approved  
17 without a hearing.

18 At the end of the test year ended July 31, 2000 (“TY”), E&T served 261 customers in an area  
19 approximately 2 miles south of the Tucson Municipal Airport on the Old Nogales Highway in Pima  
20 County. E&T’s current rates were approved in Decision No. 61137 (September 21, 1998). In  
21 Decision No. 62651 (June 13, 2000), the Commission approved an emergency rate application  
22 because the Company was experiencing unexpected and significant costs associated with purchasing  
23 water from the City of Tucson. Since its last permanent rate case, E&T has been experiencing high  
24 nitrate levels in its well, and has had to purchase water to blend with its well water to provide water  
25 with acceptable levels of nitrate. Decision No. 62651 authorized E&T to charge a \$0.94 surcharge  
26 per 1,000 gallons on an interim basis until permanent rates are established.

27 In Decision No. 63196, the Commission approved E&T’s request for an extension of its  
28 certificated area so that it could serve an additional 34 customers currently receiving water from a

1 private well. The extension permitted the Company to have access to a potential new well site for a  
2 cost-effective solution to its current problem with nitrates.

3 After notification of the rate increase application, thirty customers have opposed the request.

4 The Arizona Department of Environmental Quality ("ADEQ") inspected the Company's  
5 system in June 2000, and discovered major plant deficiencies. ADEQ issued E&T a Notice of  
6 Violation ("NOV") on November 23, 1999 because of its nitrate maximum contaminant level  
7 ("MCL") violations. The Company has subsequently conducted testing and data shows that E&T is  
8 delivering water below the MCL for nitrates, however, ADEQ cannot determine if the data is valid  
9 because ADEQ has not approved the water blending plan. Staff Engineering recommended that the  
10 Company file a copy of documentation from ADEQ stating that ADEQ has approved the blending  
11 plan before increased rates become effective.

12 E&T is current on its remittance of both property and sales taxes. Although the Company  
13 appears to be keeping its books and records in accordance with the National Association of  
14 Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts, it is not always  
15 keeping proper source documentation of plant additions. Staff recommended that E&T continue to  
16 maintain its accounts per NARUC standards, as well as retain proper documentation for plant  
17 additions.

18 In the TY, after Staff adjusted revenue and expenses, the Company had total operating  
19 revenue of \$117,370 and operating income of \$3,958, a 2.04 percent rate of return on an adjusted  
20 original cost rate base ("OCRB") of \$193,775. In its application, the Company requested total  
21 operating revenue of \$150,429, which would result in operating income of \$23,452, a rate of return of  
22 12.1 percent on adjusted OCRB. Staff recommended total operating revenue of \$141,356, which  
23 after adjusted expenses of \$108,227, would yield operating income of \$33,129, a 17.1 percent rate of  
24 return on adjusted OCRB.

#### 25 Rate Base

26 Staff's adjustments decreased E&T's proposed rate base by \$49,028, from \$242,803 to  
27 \$193,775. The major adjustments to rate base increased Contributions in Aid of Construction  
28 ("CIAC") by \$10,000 to reflect CIAC approved in the last rate case and increased Accumulated

1 Depreciation by \$5,216 to reflect the amount approved in the last rate case and a five percent  
2 depreciation rate.

3       Decision No. 61137 authorized the Company to install plant in the amount of \$183,339 with  
4 the proceeds of a loan from the stockholder. In processing this application, Staff discovered that  
5 E&T had not installed the specific plant that had been authorized in Decision No. 61137. Originally,  
6 the Company had estimated it would cost \$131,784 to install 7,600 total feet of 8-inch, 6-inch and 2-  
7 inch pipe, \$33,000 for a 25,000 gallon storage tank, \$10,590 to refurbish an existing 25,000 gallon  
8 storage tank, and \$7,965 for a truck. In fact, E&T installed 6,258 linear feet of 6-inch, 4-inch and 2-  
9 inch pipe and installed three 10,000 gallon storage tanks.

10       Due to the lack of source documentation for the plant installed with the stockholder loan,  
11 Staff Engineering had to evaluate the cost of the actual plant placed in service. Staff Engineering  
12 calculated \$101,813 as the total cost for the revised pipe installed and reduced the cost of the new  
13 storage tanks to \$30,000. To reflect Staff's estimates for plant costs, Staff reduced plant in service  
14 and the loan principal amount by \$33,281.

15       Staff's adjustments to rate base, as reflected in the Staff Report, are reasonable.

16 Revenues and Operating Expenses

17       Staff made two adjustments to Operating Revenue resulting in a decrease of \$6,071, from  
18 \$123,441 to \$117,370, to eliminate the inclusion of the Transaction Privilege Tax and a non-recurring  
19 item.

20       Staff made eight adjustments to Operating Expenses resulting in a net decrease of \$13,565,  
21 from \$126,977 to \$113,412. Staff decreased Purchased Water by \$2,722, from \$23,123 to \$20,401  
22 based on Staff Engineering's estimate that the Company would have to purchase 34 percent of its  
23 total water needs for blending purposes and the expected charge from the City of Tucson.

24       Staff reduced Outside Services by \$5,504, from \$69,354 to \$63,850. Staff's recommended  
25 level is based on annualized equipment rental of approximately \$0.24 per connection for 22 working  
26 days per month and a decrease in the management fee from \$18.00 per connection per month to  
27 \$15.00.

28       Staff increased Water Testing by \$1,629 based on Staff Engineering's calculation of water

1 testing costs. Staff increased Miscellaneous Expense by \$1,808 to reflect the past due and  
 2 uncollectable accounts. Staff also removed \$6,061 in Transaction Privilege Taxes that the Company  
 3 included in operating expenses.

4 Staff decreased Depreciation Expense by \$2,646, from \$17,910 to \$15,264 to reflect the  
 5 application of the five percent depreciation rate approved in Decision No. 61137 to the depreciable  
 6 plant in service. Staff recommended revised depreciation rates for each plant account, resulting in a  
 7 recommended composite depreciation rate of 3.30 percent.

8 Staff's adjustments to revenue and expenses, as reflected in the Staff Report are reasonable.

9 Interest Expense and Long-Term Debt

10 The Company currently has one outstanding loan in the amount of \$183,339, from its  
 11 shareholder. The Promissory Note reflects a ten-year loan at 10.5 percent interest. The Commission  
 12 approved the loan in Decision No. 61137 to install plant upgrades. Due to the substantial changes  
 13 between the authorized upgrades and the installed plant, Staff believes that the principal of the loan  
 14 needs to be adjusted. Staff recommended reducing the loan principal by \$33,281, from \$183,339 to  
 15 \$150,058. Monthly payments under the adjusted loan are reduced to \$2,024.81, from \$2,473.89.

16 Because the Company does not have records to support the cost of the plant installed with the  
 17 loan proceeds, Staff's adjustment to the loan principal is reasonable.

18 Cash Flow and Rate Design

19 Staff's recommended revenue level will yield operating income of \$33,129, and result in cash  
 20 flow of \$18,911, to provide for annual debt repayment of \$13,151 and cash for contingencies.

21 Staff's rate design is comprised of a three tier commodity rate structure with no gallons  
 22 included in the monthly minimum.

23 \* \* \* \* \*

24 Having considered the entire record herein and being fully advised in the premises, the  
 25 Commission finds, concludes, and orders that:

26  
 27 **FINDINGS OF FACT**

- 28 1. On August 15, 2000, E&T filed with the Commission an application for a permanent

1 rate increase.

2       2.       On September 14, 2000, Staff notified the Company that its application was sufficient  
3 and classified the Company as a Class D utility.

4       3.       On November 24, 2000, E&T filed a letter with the Commission acknowledging that  
5 Staff required additional information to process the rate application and waived the time clock  
6 deadline of A.A.C. R14-2-103.

7       4.       Staff filed its Staff Report on February 5, 2001, and proposed that its recommended  
8 rates and charges be approved without a hearing.

9       5.       E&T's current permanent rates and charges were established in Decision No. 61137.

10       6.       The Commission approved an interim surcharge of \$0.94 per 1,000 gallons in  
11 Decision No. 62651.

12       7.       During the TY, E&T served 261 customers in an area approximately 2 miles south of  
13 Tucson Municipal Airport on the Old Nogales Highway. E&T is located within the Tucson Active  
14 Management Area.

15       8.       In the TY, the Company had total operating revenue of \$117,370 and operating  
16 income of \$3,958, a 2.04 percent rate of return on an adjusted OCRB of \$193,775.

17       9.       In its application, E&T requested total operating revenue of \$150,429, which based on  
18 adjusted expenses of \$108,227, would result in operating income of \$42,202, a rate of return of 21.78  
19 percent on adjusted OCRB.

20       10.       Staff recommended operating revenue of \$141,356, which would yield operating  
21 income of \$33,129, and a 17.1 percent rate of return on adjusted OCRB.

22       11.       Following notification of the rate application, the Commission received thirty  
23 customer comments against the proposed rate increase.

24       12.       E&T's present and proposed rates and charges, as well as Staff's recommended rates  
25 and charges are as follows:  
26  
27  
28

	Present Rates	Proposed Rates Company	Staff
1			
2	<u>Monthly Usage Charges</u>		
3	5/8" x 3/4" Meter	\$15.00	\$15.00
4	3/4" Meter	22.50	22.50
5	1" Meter	37.50	37.50
6	1 1/2" Meter	75.00	75.00
7	2" Meter	120.00	120.00
8	3" Meter	240.00	240.00
9	4" Meter	375.00	375.00
10	6" Meter	750.00	750.00
11	<u>Commodity Rate</u>		
12	per 1,000 gallons		
13	0 to 10,000 gallons	\$2.10	\$3.04
14	10,001 to 20,000 gallons	\$2.10	\$3.04
15	In excess of 20,000 gallons	\$3.61	\$4.55
16			\$3.90
17	<u>Service Line and Meter Installation Charges</u>		
18	(Refundable pursuant to A.A.C. R14-2-405)		
19	5/8" x 3/4" Meter	\$370.00	\$370.00
20	3/4" Meter	415.00	415.00
21	1" Meter	480.00	480.00
22	1 1/2" Meter	700.00	700.00
23	2" Meter	0.00	0.00
24	3" Meter	0.00	0.00
25	4" Meter	0.00	0.00
26	6" Meter	0.00	0.00
27			1,340.00
28			1,895.00
29			2,900.00
30			5,470.00
31	<u>Service Charges</u>		
32	Establishment	\$25.00	\$25.00
33	Establishment (After Hours)	37.50	37.50
34	Reconnection (Delinquent)	25.00	25.00
35	Meter Test (If Correct)	40.00	40.00
36	Deposit	*	*
37	Deposit Interest - Per Annum	*	*
38	Re-Establishment (Within 12 Months)	**	**
39	NSF Check	15.00	15.00
40	Deferred Payment - Per Month	1.5%	1.5%
41	Meter Re-Read (If Correct)	15.00	15.00
42	<u>Monthly Service Charge for Fire Sprinkler</u>		
43	4" or smaller	\$0.00	\$0.00
44	6"	0.00	0.00
45	8"	0.00	0.00
46	10"	0.00	0.00
47	Larger than 10"	0.00	0.00
48			***
49			***
50			***
51			***
52			***
53	* Per A.A.C. R14-2-403.B		
54	** Months off system times the minimum (R14-2-403.D)		
55			

\*\*\* 1.0% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

13. E&T's Fair Value Rate Base ("FVRB") is determined to be \$193,775. The Company's FVRB is the same as its OCRB.

14. Staff's adjustments to rate base and expenses, as reflected in the Staff Report, are reasonable.

15. The Company's proposed rates would increase the median 5/8 inch meter monthly bill by 23.2 percent from \$31.09 to \$38.30, and the average 5/8 inch meter bill by 25.8 percent, from \$35.46 to \$44.61.

16. Staff's recommended rates would increase the median 5/8 inch meter monthly bill by 12.3 percent, from \$31.09 to \$34.93 and the average 5/8 inch meter monthly bill by 13.7 percent, from \$35.46 to \$40.33.

17. Staff recommended its proposed rates and charges be granted without a hearing.

18. Staff's recommended rates and service charges are reasonable and should be adopted.

19. E&T is current on all property and sales taxes.

20. E&T has purchased water from the City of Tucson to blend with its well water to ameliorate nitrate levels in its well. E&T reports that its testing indicates that it is providing water with no MCL violations.

21. E&T is not in compliance with ADEQ regulations. ADEQ reports that E&T's water blending plan has not been approved and that consequently, ADEQ could not determine if E&T is providing water that meets the quality standards of the Safe Drinking Water Act.

22. Staff further recommended that:

(a) in addition to the collection of its regular rates and charges, E&T shall collect from its customers their proportionate share of any Privilege, Sales or Use Tax as provided for in A.A.C. R14-2-409.D;

(b) the Company maintain its accounts and records in accordance with the NARUC Uniform System of accounts;

(c) Staff's recommended depreciation rates delineated in its Staff Report be approved;

1 (d) E&T decrease the allowable amount of the shareholder loan principal from  
2 \$183,339 to \$150,058;

3 (e) Any rate increase not become effective until the Company files with the Director  
4 of the Utilities Division written documentation that the water system has no MCL violations and is  
5 serving water that meets the water quality standards of the Safe Drinking Water act;

6 (f) The Company file a copy of documentation from ADEQ stating the blending plan  
7 is approved by ADEQ before these rates become effective; and

8 (g) The Company install additional pressure tank capacity of at least 2,000 gallons by  
9 December 31, 2001.

10 23. The outcome of the permanent rate case indicates that the interim rates were fully  
11 justified, and with the permanent rates granted herein, no longer necessary.

12 24. The Commission authorized E&T to extend its certificated area In Decision No.  
13 63196. One of the purposes of the extension was to give the Company access to a potential new well  
14 site and a less expensive source of water. In the event E&T is able to develop a new well site, it  
15 should file for a rate review no later than 18 months after the new well goes into operation.

#### 16 CONCLUSIONS OF LAW

17 1. E&T is a public service corporation within the meaning of Article XV of the Arizona  
18 Constitution and A.R.S. §§40-250, 40-251, 40-301 and 40-302.

19 2. The Commission has jurisdiction over E&T and of the subject matter of the  
20 application.

21 3. Notice of the application was provided in the manner prescribed by law.

22 4. The rates and charges authorized herein are just and reasonable and should be  
23 approved without a hearing.

24 5. The recommendations set forth in Findings of Fact No. 22 are reasonable and should  
25 be adopted.

26 6. The interim rates granted to E&T in Decision No. 62651 were justified and any refund  
27 obligation thereunder should be discharged.  
28

ORDER

IT IS THEREFORE ORDERED that Thim Utility Company – E&T Division shall file on or before March 30, 2001, the following schedule of rates and charges:

Monthly Usage Charges

5/8" x 3/4" Meter	\$15.00
3/4" Meter	22.50
1" Meter	37.50
1 1/2" Meter	75.00
2" Meter	120.00
3" Meter	240.00
4" Meter	375.00
6" Meter	750.00

Commodity Rate

Per 1,000 gallons	
0 to 10,000 gallons	\$2.60
10,001 to 20,000 gallons	\$3.25
In excess of 20,000 gallons	\$3.90

Service Line and Meter Installation Charges

(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$415.00
3/4" Meter	455.00
1" Meter	540.00
1 1/2" Meter	780.00
2" Meter	1,340.00
3" Meter	1,895.00
4" Meter	2,900.00
6" Meter	5,470.00

Service Charges

Establishment	\$25.00
Establishment (After Hours)	37.50
Reconnection (Delinquent)	25.00
Meter Test (If Correct)	40.00
Deposit	*
Deposit Interest – Per Annum	*
Re-Establishment (Within 12 Months)	**
NSF Check	15.00
Deferred Payment – Per Month	1.5%
Meter Re-Read (If Correct)	15.00

Monthly Service Charge for Fire Sprinkler

4" or smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

1       \*   Per A.A.C. R14-2-403(B)

2       \*\*  Months off system times the minimum (R14-2-403.D)

3       \*\*\* 1.0% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than  
4           \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service  
5           lines separate and distinct from the primary water service line.

6       IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service  
7       provided on and after the first day of the month following Thim Utility Company E&T Division  
8       filing written documentation from the Arizona Department of Environmental Quality with the  
9       Director of the Utilities Division that it has an approved water blending plan and is providing water  
10      with no maximum contaminant level violations and that meets the quality standards of the Safe  
11      Drinking Water Act.

12      IT IS FURTHER ORDERED that Thim Utility Company E&T Division shall notify its  
13      customers of the rates and charges authorized herein and the effective date of same by means of an  
14      insert in its first regular monthly billing that follows the month in which documentation from ADEQ  
15      is filed with the Utilities Division.

16      IT IS FURTHER ORDERED that Thim Utility Company E&T Division shall comply with  
17      the recommendations set forth in Findings of Fact No. 22.

18      IT IS FURTHER ORDERED that in addition to the requirements established in Decision No.  
19      63196 regarding the potential acquisition or drilling of a new well, E&T shall notify the Compliance  
20      Section of the Utilities Division within 30 days of the well being put in service and shall file for a rate  
21      review no later than 18 months after the new well goes into operation.

22      IT IS FURTHER ORDERED that this Decision shall become effective immediately.

23                   BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

24                   CHAIRMAN

25                   COMMISSIONER

26                   COMMISSIONER

1 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
2 Secretary of the Arizona Corporation Commission, have  
3 hereunto set my hand and caused the official seal of the  
4 Commission to be affixed at the Capitol, in the City of Phoenix,  
5 this \_\_\_\_ day of \_\_\_\_\_, 2001.

6  
7 BRIAN C. McNEIL  
8 EXECUTIVE SECRETARY

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DISSENT \_\_\_\_\_  
JR:

1 SERVICE LIST FOR: THIM UTILITY COMPANY E&T DIVISION

2 DOCKET NO.: W-03293A-00-0600

3 Robin Thim, President  
4 Thim Utility Company – E&T Division  
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